

# **HAUT CONSEIL DU COMMISSARIAT AUX COMPTES (H3C)**

## IFAC - International Auditing and Assurance Standards Board

### **PROPOSED POLICY STATEMENT:**

*« Clarifying Professional Requirements in International Standards Issued by the IAASB »*

### **CONSULTATION PAPER:**

Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements

## **General Comment**

The Haut Conseil du Commissariat aux comptes (H3C) is pleased to submit to the IAASB its comments on the Exposure Draft on a proposed Policy Statement, « Clarifying Professional Requirements in International Standards issued by the IAASB » and Consultation Paper “Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements” for consideration by the IAASB in its endeavour to improve its standards.

The H3C has found the subject matter highlighted in the abovementioned documents of great interest. The scope of the subject matter plays a role of great importance in the proper exercise of tasks undertaken by the profession of statutory auditor.

The quality of auditing standards is a matter of great interest to the H3C. As a regulatory body which oversees the supervision of the auditing profession, it has observed the effect of these standards on the overall audit approaches by practitioners. On this matter, it wishes to express that current auditing standards are excessively long, with a lacking in clarity in the exposure of important principles, and imply difficulties in application. All of which contribute to the decline in overall audit quality and reaffirm the need for better understandability in standards which provide clear, concise principles, without the creation or usage of separate terms in the endeavour for improvement.

It is equally the opinion of the H3C that the focus of current ISAs has been on audits of financial statements of large, public interest entities, with insufficient attention given to the difficulty of their application on the audit of medium-small entities. Without further clarification on this matter, the risk of standards being perceived as irrelevant to audits of medium-small practices shall continue to run high, and the creation of specialized ISAs for these entities highly foreseeable. It is the position of the H3C that an audit firm should be made to comply with the principles of ISAs, regardless of the size and nature of the entity.

On matters of translation, it is highly foreseeable that translation difficulties would be encountered for the proposed terms of “shall” and “should”, in that such nuances would not be clearly conveyed in the French language. In order for a clear establishment of professional requirements, a mandatory status would need to be imposed on standards through the usage of “must”.

## **QUESTIONS FROM THE EXPOSURE DRAFT:**

## **EQUAL AUTHORITY**

- (a) Do respondents agree with the view of the IAASB, or would a statement of “equal authority” assist in clarifying the responsibilities of the professional accountant?**

*We are in agreement with IAASB view that there is no need for a specific term in order to achieve a similar concept as “equal authority”, but are of the opinion that focus needs to remain on the mandatory status of the standards.*

*The words “equal authority” denotes an understanding of “an even/same degree of obligation”, which would not be the case if looked upon in the context of professional requirements vs. explanatory material. Similarly, it must be noted that the real intended meaning of the expression, which is “that has undergone the same due process”, is not conveyed by the words “equal authority”.*

## **CATEGORIES OF PROFESSIONAL REQUIREMENTS**

- (a) Do respondents agree with the proposed categories of professional requirements and the related obligations they would impose on professional accountants? Please state the reasons in support for your response.**

*Under the French & European law, all standards are normative and quasi-legislative, with no distinction between different requirement levels.*

*It would be incomprehensible to distinguish the requirements (into mandatory/presumptive with “shall”/”should”) as it would merely create confusion amongst the statutory auditors by opening the standards to interpretation.*

*The need for distinction in requirement levels is best avoided.*

- (b) Do respondents believe that the proposals will improve the quality and consistency of audits? Please state the reasons in support for your response.**

*It is to the contrary that the proposals would improve the quality and consistency of audits. The creation of several categories in standards which in turn contain several different terms to express mandatory/presumptive requirements would only lead to judicial and financial insecurity by opening gateways to all kinds of interpretations by statutory auditors.*

- (c) Do respondents agree with the proposed requirement for the professional accountant, when departing from a presumptive requirement, to document why the professional accountant decided to depart, and how the alternative procedure(s) performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement? Please state the reasons in support for your response.**

*Our position is against the idea of the creation of “presumptive requirements” which would allow a departure in the standards as it would create financial and judicial insecurity through open interpretation.*

- (d) Do respondents agree with the applicability of the proposed documentation**

**requirements to departures from existing International Standards before they are revised? Please state the reasons in support for your response.**

*As mentioned in (c) above, we are against the idea of the creation of “presumptive requirements” for reasons abovementioned.*

**(e) Will the proposed terms “shall” and “should” result in translation difficulties? The IAASB had considered the word “must” as an alternative to “shall” – would this alternative resolve any identified translation difficulties?**

*These terms would create translation difficulties of the standards into the French language, as it would be impossible to highlight the differences between “must”, “shall” and “should” (to name but a few). It would thus be of no interest even if “must” is used as an alternative to “shall”.*

*The use of alternative words/terms would create insecurity in terms of subtlety in the application of standards.*

**(f) Does the anticipated increase in the number of bold type requirements that may arise by adopting the proposals raise concern over the specificity and level at which professional requirements are set? Please state the reasons in support for your response.**

*Increase in the number of bold type requirements would create difficulties in the understanding of its application.*

*Risk would thus be that the level of the standards would be affected, and confusion amongst statutory auditors who would question the setting of professional requirements.*

### **BOLD TYPE LETTERING**

**(a) Do respondents agree with the decision of the IAASB to retain the bold type convention?**

*Retention of the bold type convention would be against the opinion of the French authorities.*

### **IMPLEMENTATION OF THE PROPOSALS**

**(a) Do respondents agree that the IAASB should apply the proposals on a prospective basis? Please state the reasons in support for your response.**

*We are in favour of a prospective approach in the application of the proposals, but on the condition that the usage of “shall” and all other conditions abovementioned are adhered to, without the introduction of “presumptive requirements” and the usage of “should”.*

### **QUESTIONS FROM THE CONSULTATION PAPER:**

**1. Has the length and style of these standards aided or impaired their understandability and clarity? Please explain the reasons that are persuasive in reaching your view and provide examples that help illustrate your view.**

*The current length and style of IAASB standards should be changed to a more synthetic and clear expression of fundamental principles, as they have been found to be too extensive and impair understanding.*

*Construction of standards should be made in a normative manner, and all which concerns or is relevant and open to interpretation, commentary and expectation, be refrained from inclusion, as it would imply difficulties for the application of standards.*

*Standards should be construed in manner which makes it evidently clear that there would not be the need for interpretation, and that requirements are clearly understood to be mandatory without the need for presumptive interpretation.*

**2. If there is concern over the length of the standards, please also explain what is viewed as being problematic – the amount of explanatory guidance provided, the scope of matters addressed or other aspects of the standards. How do respondents consider such matters might be resolved?**

*We are considerably concerned over the amount of explanatory guidance provided in the written IAASB standards which serves merely to cloud the effect of mandatory requirements and provides the professional with the possibility of open interpretation.*

*Standards should be further developed and construed in a manner which makes it evidently clear of requirements, reducing or diminishing the need for interpretation, so as to be clearly understood to be mandatory even with the alternative procedures.*

**3. Has the degree of detail provided in the standards aided or hindered their adoption or implementation? Please provide specific details of the circumstances that have arisen as a result of the style in which ISAs are written.**

*The current length and style of IAASB standards are far too detailed and impair clear understanding for the professional. Too much detail in standards would hinder its implementation for the professional in leaving room for interpretation.*

**4. Are there other options for improvement in standards that should be considered by the IAASB?**

*Construction of standards should be made in a normative manner, and all which concerns or is relevant and open to interpretation, commentary and expectation, be refrained from inclusion, as it would imply difficulties for the application of standards.*

*Standards should be construed in manner which makes it evidently clear that there is no need for presumptive interpretation, and that requirements are clearly understood to be mandatory. Commentaries should not be written into as it would leave too many doors open to interpretation by the professional. They should be construed separately from the standards.*

*It is our opinion that standards could be improved through the identification of the fundamental principles of auditing, which could then serve as a basis for the application of the “shall” requirements.*

**5. Do respondents believe that the IAASB should continue with its present style of ISAs, or is there a need for ISAs to be restructured? What are the reasons that are persuasive in reaching your view?**

*We are in favour for ISAs to be restructured, with a more structured construction and further development in its clarification and reduction in the need for commentary. The current length and style of ISAs impairs the clear understanding of its fundamental principles, and should be construed in a manner which produces less commentary – which allows a wide interpretation of standards.*

**6. If ISAs are to be restructured, which option should be pursued and why? Are there other options that the IAASB should consider, particularly in helping with the ability for auditors of both large and small- and medium-sized entities to implement ISAs?**

*As we are of the opinion that there should be a single document which sets out the ISAs in a clear, structured manner, the description of Restructuring Option A fits closest to how we would like to see the construction of ISAs.*

**7. Notwithstanding the decisions of the IAASB regarding the proposed Policy Statement (see accompanying Exposure Draft), in the event there is strong support for the restructuring of ISAs, do respondents agree that any such restructuring should be applied on a prospective basis? Or should restructuring be applied prospectively, but on a priority basis first to a limited number of ISAs that have attracted concerns about their length and complexity, namely the IAASB's recently issued audit risk and fraud ISAs? If so, what are the reasons that are persuasive in reaching your view?**

*With consideration to our response to the Exposure Draft, we are in favour of an ISA restructuring to be applied on a prospective basis, with priority given to audit risk and fraud ISAs.*

**8. Do respondents believe that identifying “fundamental principles underlying an ISA audit” would aid in communicating the principles that underlie the professional requirements in ISAs and ultimately help drive the auditor’s professional judgment? Please give reasons for your answer.**

*We are of the belief that it is imperative that there should be established ethical rules underlying all the standards but at the same time, ~~unfavourable~~ **not in favour** for a mixture of types and all discussions, explanations, interpretations and commentaries should be excluded as this leads to difficulties in the application of the standards. Principles of ethics should be clearly outlined in a Code of Ethics, and ethical standards clearly written to describe the rules to follow in the conduct of an audit. Standards should be self-understanding without the need to be attached to a framework.*

**9. Should the establishment of such principles be considered a high, medium, or low priority of the IAASB for the immediate future?**

*No priority.  
- see (8) above -*

**10. Do respondents consider the proposed fundamental principles to be complete and appropriate, and do respondents believe the method by which they have been derived to be appropriate? If not, what matters do respondents believe should be considered in development of the fundamental principles?**

- see (8) above -

**11. Do respondents believe that the fundamental principles should be expanded to serve as a basis for all assurance engagements?**

- see (8) above -

**12. Do respondents agree with the proposed authority to be afforded the fundamental principles?**

- see (8) above -

**13. Do respondents believe the present description of the authority of Practice Statements to be clear and understandable? If so, do respondents agree with the authority that is afforded them? If not, what should be the authority of Practice Statements?**

*We are against the increase of explanatory material currently contained in ISAs which would open the gateway to wide interpretations, but are in favour for the promotion of good practices in the development of IAPSs.  
Practice Statements should be written in a manner which limits the scope to good practice and clear interpretive guidance, and professional requirements written in a manner which allows the professional to comprehend the mandatory requirements, without the need for presumption.*

**14. Given the existing authority of Practice Statements and their use in providing additional guidance to International Standards, should the IAASB change the style in which Practice Statements are written? To the extent they are derived from professional requirements contained in an International Standard, should Practice Statements enunciate professional requirements?**

*The status of the IAPS is insufficiently clear. It is important that a distinction be made between what is asked of the standards, and that of commentaries which should not possess any normative values. IAPS are not standards, and should not be created as such.*

**15. Taking account of the options identified above, what future role should the IAASB consider for Practice Statements? Are there other options that the IAASB should consider? Please explain why a particular option is being suggested and how it might be of benefit.**

*We don't see the need for any other option.  
- See above -*